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Kimberly M. Kirby
Senior Manager
FCC Affairs

March 24, 1997

ORIGINAL

Mr. William F. Caton, Acting Secretary
Federal Communications Commission
1919 M Street, NW Room 222
Washington, DC 20554

Re: Ex Parte Presentation in CC Docket No. 96-262

Dear Mr. Caton:

On Friday, March 21, 1997, Brad Stillman (MCI) and I met with Chris Barnekov (CCB), Aaron Goldschmidt (CCB), Jeff Lanning (OGC), Rich Lerner (CCB), Katherine Schroder (CCB), Doug Slotten (CCB), Steve Spaeth, (CCB), and Mark Siefert (CCB). The purpose of the meeting was to discuss MCI's position in the above captioned proceeding as filed in MCI's comments. The attached document was used during the meeting and briefly outlines the topics discussed.

Due to the late hour of the meeting two copies of this Notice are being submitted to the Secretary of the FCC in accordance with Section 1.1206(a)(1) of the Commission's rules the next business day.

Sincerely,

Kimberly M. Kirby

Kimberly M. Kirby

Attachment

cc: Chris Barnekov (letter only)
Aaron Goldschmidt (letter only)
Jeff Lanning (letter only)
Rich Lerner (letter only)
Katherine Schroder (letter only)
Doug Slotten (letter only)
Steve Spaeth (letter only)
Mark Siefert (letter only)

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List ABCDE

# Roadmap to Competition

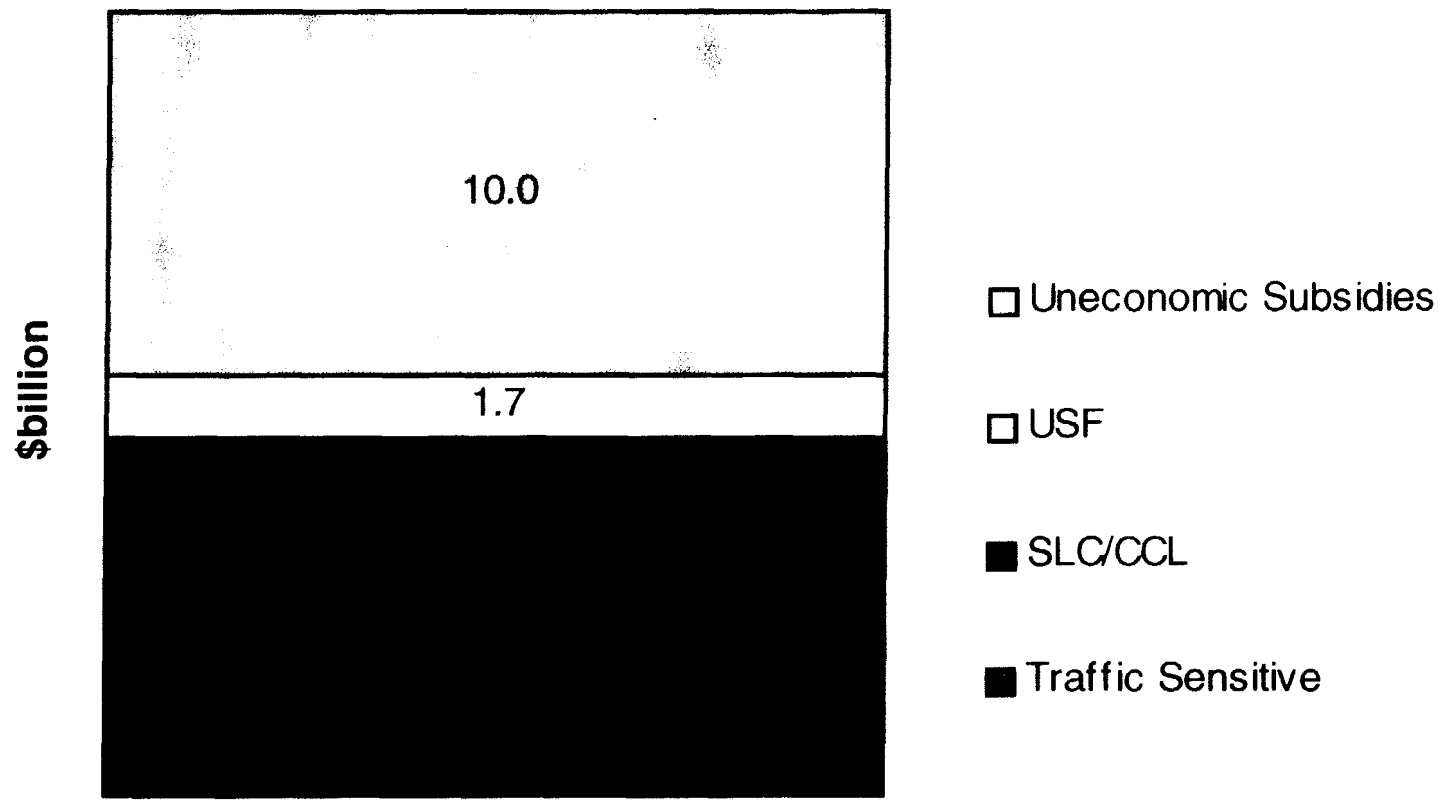
MCI Communications Corporation

March 21, 1997

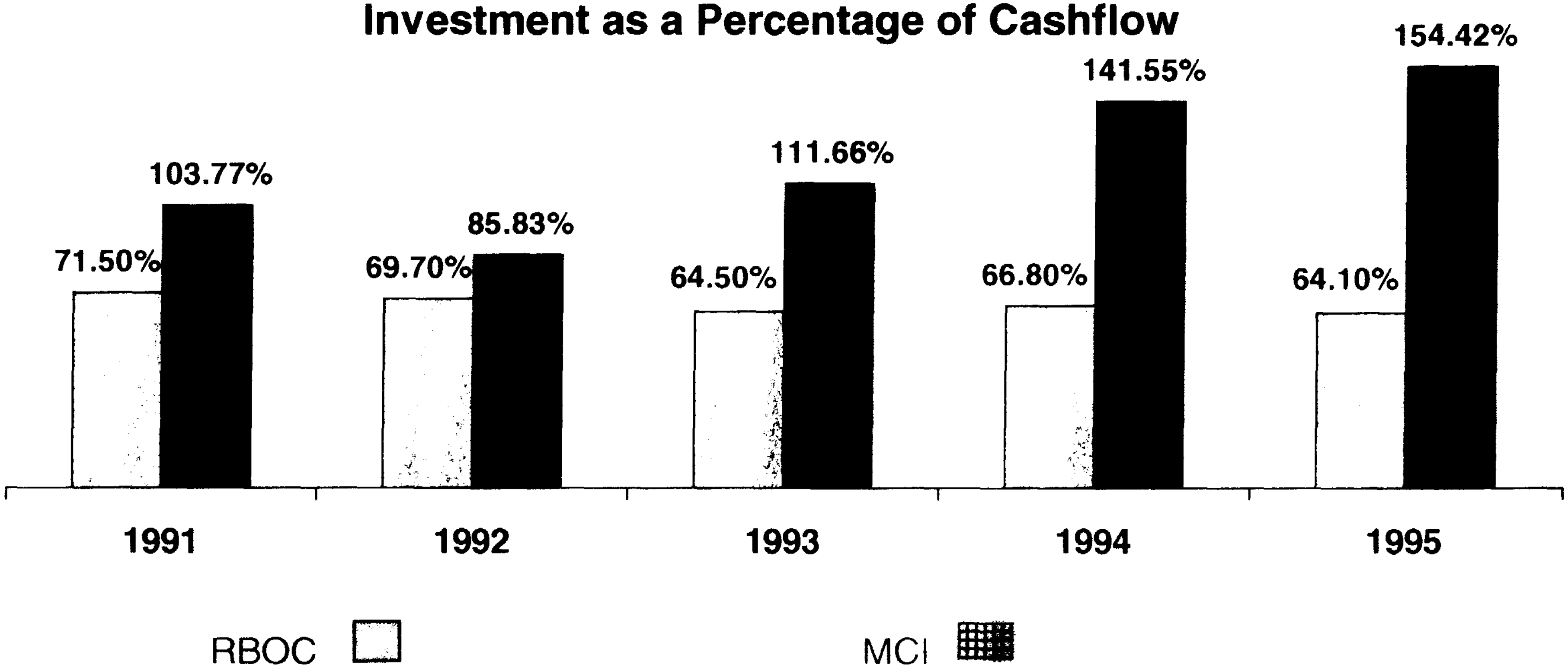
# $10 Billion in Excess Interstate Access Revenues

$21.5 Billion Interstate

Access Revenues



# RBOC and MCI
## Investment as a Percentage of Cashflow



# COMPARISON OF 1996 FINANCIAL RESULTS

| | | | | |
|---|---|---|---|---|
| NYNEX | $13.5 billion | $1.5 billion | 11.1% | 37.9% |
| Ameritech | $14.9 billion | $2.1 billion | 14.1% | 39.4% |
| SBC | $13.9 billion | $2.9 billion | 20.9% | 30.8% |
| Pacific Telesis | $9.6 billion | $1.1 billion | 11.5% | 38.2% |
| Bell South | $19.0 billion | $4.8 billion | 25.3% | 44.7% |
| Bell Atlantic | $13.1 billion | $1.9 billion | 14.5% | 42.2% |
| GTE | $21.3 billion | $2.8 billion | 13.2% | 43.5% |
| US West* | $10.1 billion | $1.2 billion | 11.9% | 44.6% |
| | | | | |
| MCI | $18.5 billion | $1.2 billion | 6.5% | 21.5% |
| AT&T | $52.2 billion | $5.9 billion | 11.3% | 22.1% |

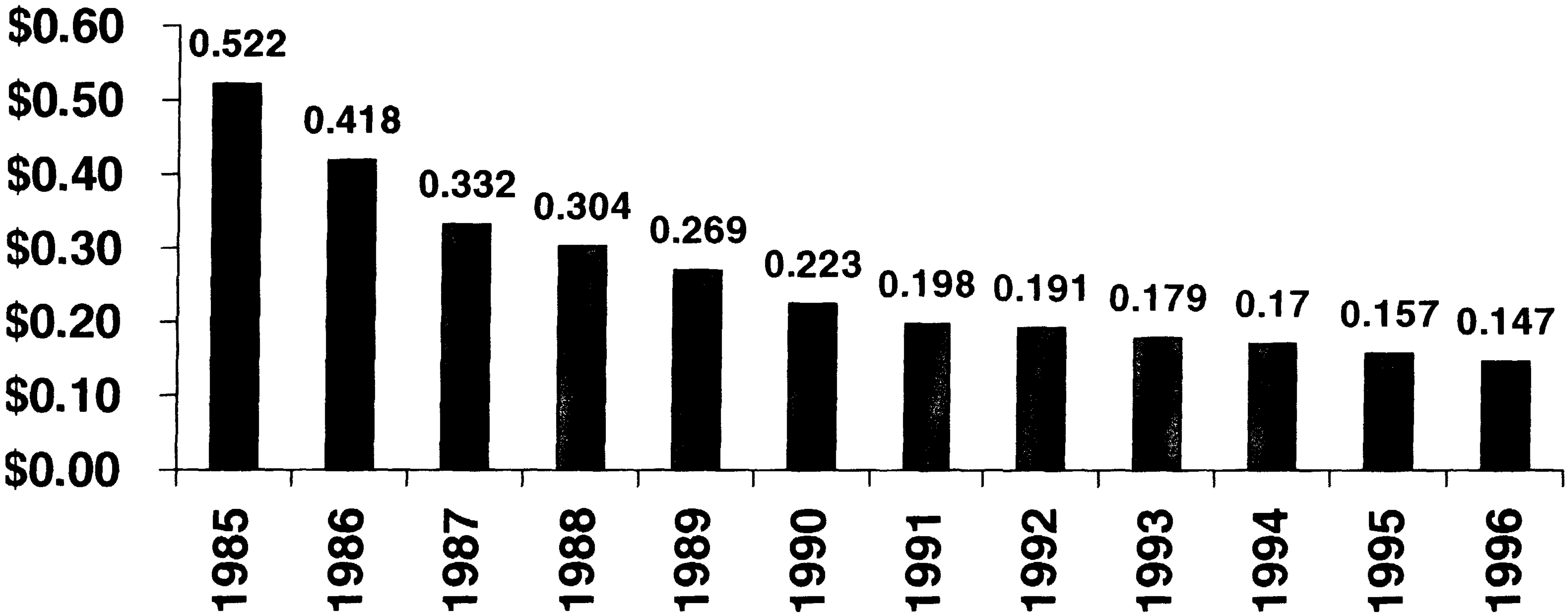
*Fourth quarter estimates used. US West releases its results on February 12

# RBOC versus Long Distance
# Higher Operating Cash Flow

| | | | |
|---|---|---|---|
| RBOCs | | | |
| [illegible] | [illegible] | [illegible] | 70% |
| [illegible] | [illegible] | [illegible] | 65% |
| Long Distance | $75.0B | [illegible] | [illegible] |

*EBITDA

# Long Distance Industry Pricing (Rev/Min)




*Source: "Long-distance: Public Benefits from Increased Competition," study by Robert E. Hall, Stanford University, October 1993, updated in 1995; MCI estimates for 1996

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## Estimates of Decline in Toll Rates and Access Costs

| All values are real | 1992 | 1993 | 1994 | 1995 | $ Change |
|---|---|---|---|---|---|
| Revenue/Minute | $0.1663 | $0.1550 | $0.1439 | $0.1346 | $ (0.0317 |
| Access Charge/Minute | $0.0651 | $0.0598 | $0.0568 | $0.0519 | $ (0.0132 |

*Source: FCC: Telecommunications Industry Revenue: TRS Fund Worksheet Data, 12/96, adjusted for inflation using CPI

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# Access Reductions Have Been Flowed Through To Long Distance Consumers.

- Local Telephone Monopolies Claim that During the Past Five Years, Access Charges Have Declined by about $9 Billion.*

- Actual Savings Passed on to Consumers During the Same Period Have Been Approximately $51 Billion.**

*"USTA Comments on FCC Access Charge NPRM," The United States Telephone Association, December 23, 1996*

**"Long-distance: Public Benefits from Increased Competition," Robert E. Hall, Stanford University, October 1993, updated 1994.*

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# State Regulators Support Prescriptive Approach

- "[W]e believe carrier access charges reductions of 50% or more over the next few years should be achievable over the next few years without any transfer of costs to local service." New York Department of Public Service
- "We agree that a prescriptive approach, in the form of phased reductions to access charges, would move prices towards economic costs more quickly." Florida Public Service Commission
- "In general, Texas PUC advocates use of a prescriptive approach initially, with transition to a market-based approach when true competition exists." Texas Public Utility Commission

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# Consumer Representatives Support a Prescriptive Approach

- "State advocates recommend that this Commission take a prescriptive approach where significant market power exists." State Consumer Advocates from CA, DC, FL, IN, IA, MD, MO, NJ, MN, PA, WA

- "It is unrealistic, however, to believe that efficient prices will be accomplished without immediate, prescriptive steps to eliminate the anti-competitive and inefficient pricing of access." AARP, CFA, CU

- "If the Commission fails to prescribe an efficient pricing structure for access, it will prolong and delay the advent of full and effective competition in both the access and local exchange markets." Texas Office of Public Utility Counsel

# A Market-Based Approach Cannot Work to Reduce Access Charges:

- **Where There Is No Competition:**
  - Terminating Access

- **Where Competition Has Not Yet Arrived**
  - Difficulties in Obtaining Interconnection and Access
  - Time and Capital-Intensive Steps Needed to Provide Competitive Local Service
  - ILECs Can Charge Higher Access Rates for Consumers Without A Competitive Alternative

# A Market-Based Approach Will Not Work: Difficult to Make Local Competition Happen

- **Operations Support Systems (OSS)**
  - Manual v. Electronic Bonding
  - Non-Industry Standard Interfaces For Resale
  - Not Operationally Ready

- **Non-Recurring Charges (NRCs)**
  - Anti-Competitive Penalty Charge
  - Non-Cost-Based
  - PacBell California NRC=$150 per loop

- **Collocation:**
  - 72 Collocation Requests Made/Only 7 Filled
  - NYNEX - No Physical/No Virtual Collocation

# A Market-Based Approach Will Not Work: Difficult to Make Local Competition Happen (Con't)

- **No Tariffed Unbundled Switching**
- **Interim, Non-Cost-Based Rates - Unbundled Network Elements**
  - AZ, GA, KY, NJ, TX, MI, NY, NC, TN, VA, OH, IL, CA, PA, UT, DC
  - Only FL and has set permanent rates for UNEs

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# No Significant Impact On RBOC Revenues

## ■ Analysts

- "Evidence increasingly suggests that access charges paid by long distance carriers to IECs will decline dramatically over the next several years." ***Morgan Stanley, Comfort/Kennedy/Flynn, December 4, 1996***

- "Access reform will trim annual LEC revenues by $5-7 billion (net) by the end of a 3-5 year transition period. The universal service fund will be $6-8 billion." "This level of cuts is in line with the revenue reductions absorbed by the LEC industry in their annual price cap adjustments...the level of cuts...in no way compromises their ability to fund capital investment and maintain their local network." "[G]rowth outlook for the RBOCs is a 3-7% growth rate. This rate assumes a $1-2 billion access cut each year, competitive pressures beginning in the second half of 1997, and entry into long distance in the second half of 1998." ***CS First Boston, Frank Governali, February 27, 1997***

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# No Significant Impact On RBOC Revenues (Con't)

- **Analysts**
  - "We expect the FCC to ultimately lower the average usage based rate per minute from the current level of $.03 per minute to $.01 per minute... It appears likely that we will have a prescriptive approach to access reform at least the terminating access portion." ***Chicago Corp, Eric Strummingher, January 27, 1997***
  - "For 1997, we have assumed access rates decline 15%, much greater than historical 4-5% reductions.... For 1998, we estimate a 25% decrease in access rates...." ***Morgan Stanley, David Togut, January 17, 1997***

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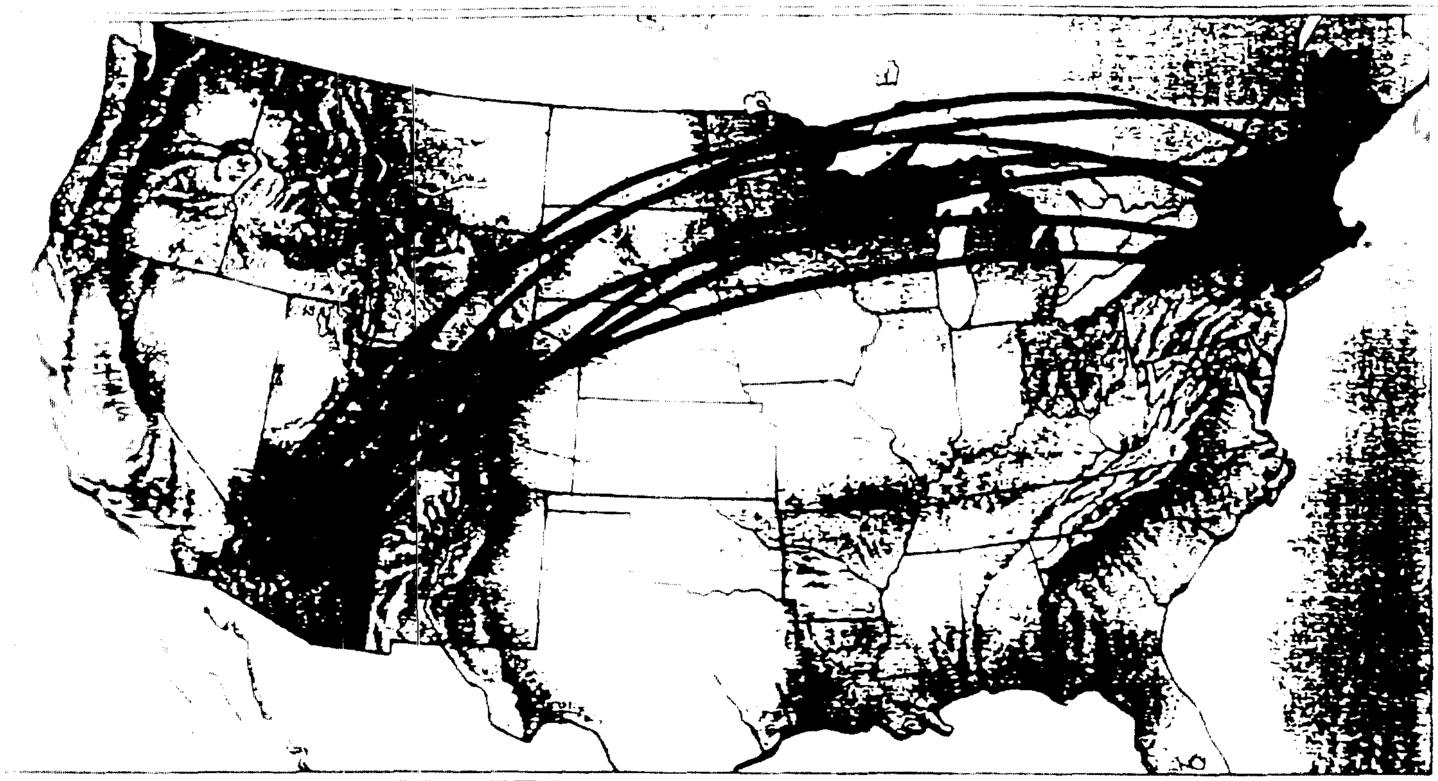
# CONCLUSION

- With Mandated Access Charge Reductions Consumers Will Benefit Now And Competition Will Come More Quickly

- Without Mandated Reductions In Access Charges Competition In The Local And Long Distance Markets Will Be Impaired



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